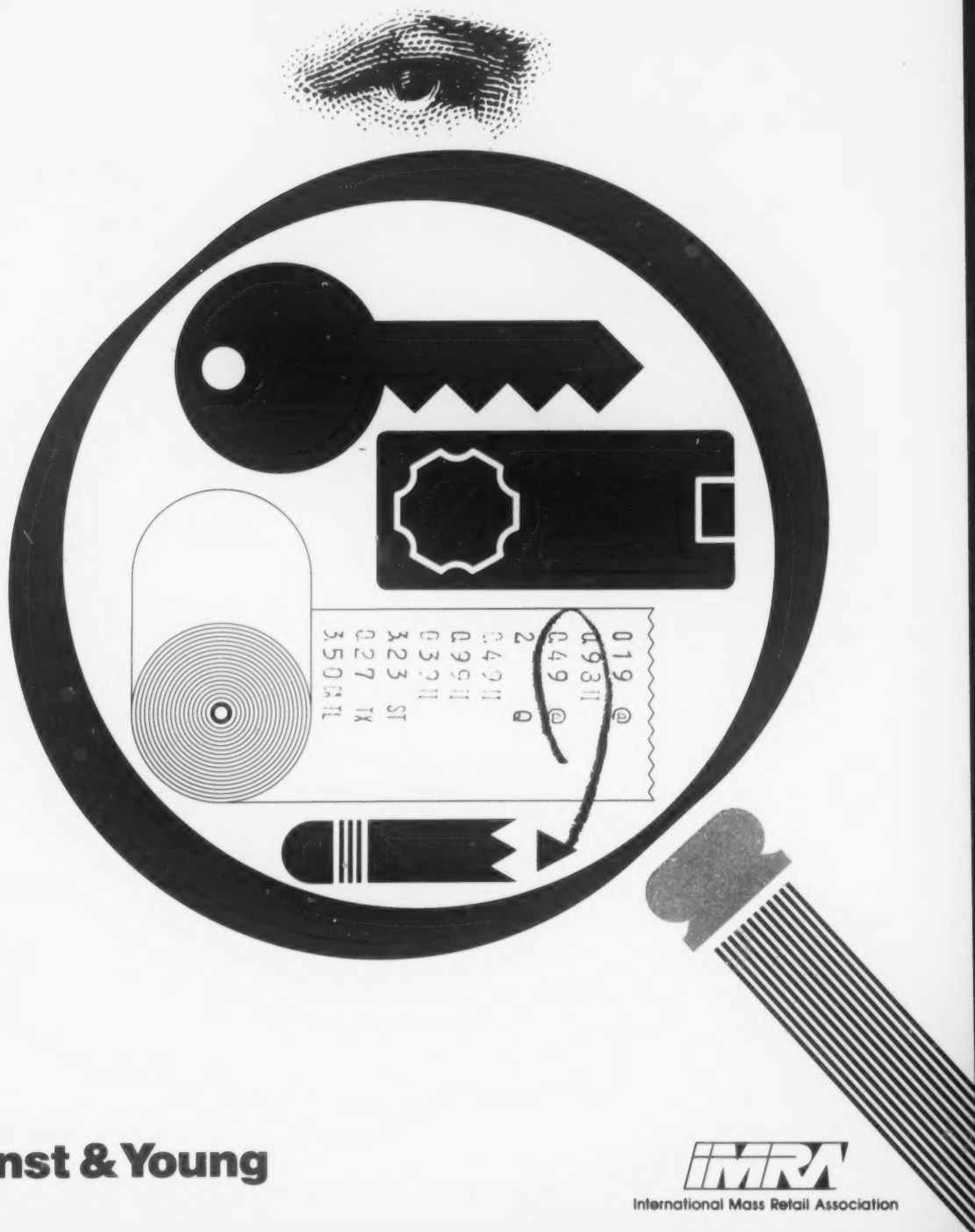


An IMRA/Ernst & Young Survey: An Ounce of Prevention

1989-1990 Edition

*The eleventh annual survey of security and
loss prevention in the retail industry*



Ernst & Young

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International Mass Retail Association

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The IMRA is an association representing more than 700 companies in the mass merchandising industry. The association keeps its members current on retail and business matters through publication of a monthly newsletter and sponsorship of meetings, seminars, and roundtables.

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- Advertising conference
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IMRA/Ernst & Young
is pleased to present
An Ounce of Prevention,
our eleventh annual survey
of security and loss prevention
in the retail industry

Ernst & Young


International Mass Retail Association



Contents

- 4 Highlights
- 5 Scope and Method
- 6 The Participants
- 8 Shrinkage Results
- 10 Loss-Prevention Expenses and Capital Expenditures
- 13 Departmental Shrinkage Management
- 15 Inventory Analysis
- 17 Loss Prevention at the Warehouse/
Distribution Center
- 19 Apprehensions
- 21 Drug-Testing Policies

Market Segment Analysis

- 22 Mass Merchant Strategies
- 23 Department Store Strategies
- 24 Softlines Specialty Store Strategies
- 25 Hardlines Specialty Store Strategies

Retail Case Studies

- 26 McCrory's Scrutinizes Every Policy,
Procedure
- 28 Younkers Sets Course Down Highway 1.7
- 30 Company Traditions Set Loehmann's Apart

The Eleventh Annual Survey of Security and Loss Prevention

Highlights

In 1988 alone, the retailers participating in this year's survey reported more than 570,000 apprehensions, 93% of whom were customers. When asked if there was any evidence of drugs, 40% of the retailers said yes.

In this year's eleventh annual *An Ounce of Prevention* study, Ernst & Young takes a bold look at a very sensitive issue: the relationship of drugs to retail shrinkage. As the nation's drug crisis escalates, it also examines retailers' emerging approaches to employee drug testing.

Sales losses due to shrinkage—whether employee/customer/paperwork or vendor theft—continue to plague the retail community. In 1988 alone, the 130 companies participating in this survey lost more than \$1.5 billion, a 12% increase in dollars lost over the previous year.

The information for this survey was gathered in spring/summer 1989 with a written questionnaire, and is generally based on fiscal 1988 data.

Among the key findings of this year's survey:

- Companies suffering the greatest shrinkage losses tended to have sales between \$100 and \$499 million, while smaller and larger firms fared better. (See page 9)
- Loss-prevention expenses as a percentage of sales declined slightly in 1988 for the retailers polled. The decline was most pronounced for the department store retailers: They cut spending from .47% of sales in 1987 to .43% in

1988, a 9% decrease. (See page 10)

- Retail warehouse/distribution center-related shrinkage also plagued these retailers. For the participants, these losses reached \$104 million in 1988, more than double what they lost in 1987. (See page 17)
- Of their employee apprehensions, 39% of the retailers polled suspected drug involvement; 24% said there was none, and 36% indicated they didn't know. (See page 20)
- Still, only a small group, 21% of the participants tested their employees for drugs. Of these respondents, 48% reported testing distribution center employees. (See page 21)

To give the numbers that appear in this book greater meaning, we have included a series of loss-prevention case studies. Senior executives from McCrory's, Younkers and Loehmann's agreed to discuss strategies and viewpoints that shed additional light on this troubling and expensive problem.

We would like to formally thank these executives for their time and participation. We hope the text and charts that follow will prove instructive and insightful. Please send any questions or comments you may have to Stephanie M. Shern, National Director of Retail Industry Services, Ernst & Young, or to Richard Hersh, President, International Mass Retail Association.

Scope and Method

Participation was solicited from the membership of the International Mass Retail Association, which sponsored this study, and from a diversified sample of retail companies.

For the first time this year we have divided the specialty store participants into two categories: Those selling primarily softlines merchandise and those featuring hardlines merchandise.

The definition of the four types of retail establishments follows:

- **Mass Merchants**
Discount, general merchandise, drug and variety chains with multiple departments, central checkout and limited selling staff.
- **Department Stores**
Multi-department retailers offering departmental checkout with highly visible selling service. This category includes specialty stores with the principal characteristics of department stores.
- **Softlines Specialty Retailers**
Apparel, domestic and jewelry retailers typically with focused assortments, few departments, central checkout and, on average, 10,000 sq. ft. of selling space.
- **Hardlines Specialty Retailers**
Retailers selling merchandise made of hard substances such as furniture, lumber, hardware, appliances and consumer electronics. These companies typically operate with central checkout; store size may vary according to merchandise category.

Wherever the term stores is used in this report, it refers to companies, except where it clearly designates specific numbers of stores.

Reflecting this year's data, high- and low-shrinkage were defined as follows for each retail segment:

- For mass merchants:
low-shrinkage = 1.0% of sales or less;
high-shrinkage = 2.5% of sales or more.
- For department stores:
low-shrinkage = 1.5% of sales or less;
high-shrinkage = 2.5% of sales or more.
- For specialty stores:
low-shrinkage = 1.0% of sales or less;
high-shrinkage = 2.0% of sales or more.

Every response was reviewed for completeness and consistency to insure accurate processing and appropriate use of information.

To assist you in reading the survey, please keep the following points in mind:

- The pool of retailers who participated in this survey changes from year to year. Therefore, it is not completely accurate to compare information published in this report to data presented in earlier surveys.
- Some participants did not answer every question; two retailers did not provide sales volume data. Therefore, it may not be completely accurate to compare data in one table to data in another table. Questionnaires that were substantially incomplete were not tabulated.
- Because some of the questions allowed multiple answers, tallied responses do not always total 100%. Also, due to rounding, some responses may not equal 100%.
- Much of the data is of a confidential nature; therefore, Ernst & Young has agreed to withhold the names of the companies that participated in the survey.

I. The Participants

This year, 130 retail companies participated in the survey. Together, in fiscal 1988, they operated more than 42,500 locations, with total sales reaching approximately \$146.4 billion.

Looking at the survey group in terms of market segment, 56 were mass merchants, with more than 30,000 store locations and aggregate 1988 sales exceeding \$116 billion. Twenty department store retailers also participated, with 937 store locations and total 1988 sales of nearly \$10 billion. Twenty-seven softlines specialty store retailers took part in the survey, representing 4,961 stores with \$11.1 billion in sales, along with 27 hardlines specialty retailers, representing more than 6,624 stores with 1988 sales of \$8.8 billion. (See Table 1)

Sales Breakdown

The largest number of respondents—42 companies, or 33% of the survey population—reported 1988 sales of \$500 million or more. These included 27 mass merchants, five

department stores, four softlines specialty retailers and six hardlines specialists.

Thirty-two companies, or 26% of the participants, reported 1988 sales ranging from \$10 to \$49 million, forming the second largest group in the study. Next, 31 retailers, or 25% of the group, reported sales ranging from \$100 to \$499 million, while only seven companies had sales under \$10 million. (See Table 2)

Store Count

Almost half of the respondents, 46%, ran 50 or more store locations in 1988, with 35% operating at least 100 units. Not surprisingly, mass merchants and specialty store companies from both market segments averaged more locations than did department store retailers.

To illustrate, 43% of the mass merchants, 38% of the softlines specialty chains and 32% of the hardlines retailers operated 100 or more units, compared to only 15% of the department store chains. (See Table 3)

Table 1 The Participants

	Number of Companies	Number of Stores	Sales Volume (\$ Billions)
Mass Merchants	56	30,158	\$116.6
Department Stores	20	937	9.9
Specialty—Softlines	27	4,961	11.1
Specialty—Hardlines	27	6,624	8.8
Total	130	42,680	\$146.4*

*This figure represents sales from 128 companies; two companies omitted their sales information.

Table 2 Participants' 1988 Sales Volume

	Mass Merchants	Department Stores	Specialty Softlines	Specialty Hardlines	All Participants
Under \$10 Million	2	—	2	3	7
\$10 - \$49 Million	10	8	9	5	32
\$50 - \$99 Million	3	3	4	6	16
\$100 - \$499 Million	13	4	8	6	31
\$500 Million and Over	27	5	4	6	42

Store Location

The majority of this year's respondents, 68%, operated at least half of their stores in suburban locations. More than half the group reported that 75% or more of their stores were located in the suburbs.

By retail segment, softlines specialty retailers led the three other groups in this regard with 80% reporting at least half of their stores in suburban locations. (See Table 4)

Number of Loss-Prevention Employees

In 1988, the greatest number of loss-prevention employees were deployed as guards/detectives, according to the companies polled.

While the four market segments were consistent in this regard, department store retailers led the group, averaging 72 individuals in this position. Mass merchants followed with an average of 68. (See Table 5)

Table 3- Participants' Number of Stores

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
1 - 9	22%	35%	7%	16%	20%
10 - 49	26	40	40	40	34
50 - 99	9	10	15	12	11
100 - 199	15	10	4	16	12
200 - 499	15	5	19	4	12
500 or More	13	—	15	12	11

Table 4 Participants' Store Locations

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
100% Urban	20%	20%	20%	16%	19%
1 to 49% Suburban	16	15	—	16	13
50 to 74% Suburban	28	5	12	4	15
75 to 99% Suburban	18	30	40	52	32
100% Suburban	18	30	28	12	21

Table 5 Number of Loss-Prevention Employees*

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
Guards/Detectives	68	72	65	58	68
Store Level LP Manager	19	14	17	6	18
Other LP Employees	7	4	2	4	6
Regional LP Manager	2	2	2	8	2
LP Auditors	2	2	7	6	2
LP Office Staff	1	4	3	12	2
LP Director/Manager	0	1	1	5	1
LP Training Staff	0	1	2	1	0

*Average number of full-time equivalent employees.

II. Shrinkage Results

Dollar Estimates

The companies represented in this year's study reported 1988 shrinkage levels of 1.84% of sales, nearly comparable to the 1987 results.

However, results varied significantly by company. Forty-three retailers, 41% of those polled, reported that their company's shrink had increased in 1988, and 50 retailers, 48%, said shrink had declined. Only 11 retailers, 11% of the participants, reported no change.

In actual dollars, shrinkage cost these retailers more than \$1.5 billion at retail in 1988, compared to almost \$1.4 billion lost in 1987.

For participating mass merchants, losses due to shrinkage approached a staggering \$1.2 billion, or 1.74% of sales in 1988.

The department store retailers polled were hit hardest, suffering 1988 shrinkage losses of 2.22% of sales, or more than \$87 million in sales.

Softlines retailers reported a decline in shrink of 4%, to 1.91% of sales, or \$221 million in losses.

Of the four groups, hardlines specialty chains fared best: 1988 shrinkage losses ran to \$90 million or 1.68% of sales. However, this group also reported the greatest shrinkage increase, up approximately 17% over the previous year's 1.43% of sales. (See Table 6)

To keep these figures in perspective, note that retail systems of reporting shrinkage vary in terms of including or excluding inventory markdowns and damages. Most retailers account for and control markdowns separately under the retail inventory method. Some, however, do not separate all markdown data, which can cause inflated shrinkage results.

Impact of Company Size on Shrinkage

The study revealed that the companies hurt most by shrink were those with sales ranging from \$100 to \$499 million. Smaller companies, with sales of less than \$100 million, and larger ones, with sales exceeding \$500 million, fared significantly better.

Retailers with sales in the \$100 to \$499 million range reported 1988 shrinkage results of 2.38% of sales, down slightly from the previous year's 2.39%.

In comparison, companies with 1988 sales under \$100 million reported that shrinkage eroded 1.60% of sales in 1988, a substantial increase over the 1.49% lost in 1987. Retailers with sales over \$500 million reported 1988 shrinkage losses of 1.75% of sales, a 3% decline over the previous year's 1.81% of sales. (See Table 7)

Table 6 1988 Shrinkage Results by Retail Category

Shrinkage	Mass Merchants	Department Stores	Specialty		All Participants
			Softlines	Hardlines	
% of 1988 Sales	1.74%	2.22%	1.91%	1.68%	1.84%
% of 1987 Sales	1.77	2.23	1.98	1.43	1.83
Total 1988 Shrinkage (\$ Millions)	\$1,163	\$87	\$221	\$90	\$1,561
Total 1987 Shrinkage (\$ Millions)	\$1,031	\$90	\$192	\$81	\$1,394

Locating Employee Theft

When asked to identify the areas they thought were most vulnerable to employee pilferage, the greatest percentage of retailers polled identified the point-of-sale. This opinion was particularly strong among the mass merchants responding to the survey, with 44% of those polled reporting that employee theft generally took place at the point-of-sale.

After the point-of-sale, the respondents stated that most employee theft occurred on the selling floor (20%), in stock areas (14%), warehouses (10%), and receiving areas (8%). Six percent of those polled said employees concealed stolen merchandise in trash areas. Retailers from the four market segments reported similar trends. (See Table 8)

Table 7 Shrinkage as Percentage of Annual Sales

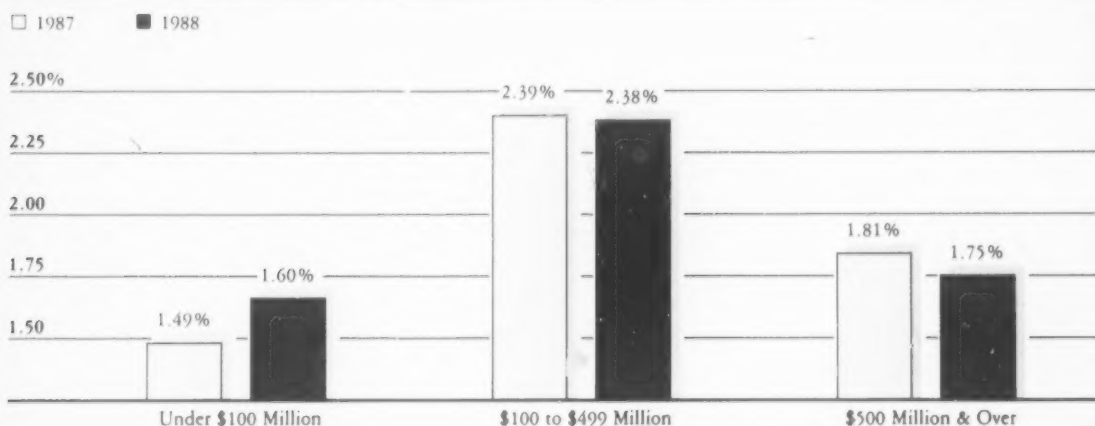


Table 8 Retailers' Opinions on Location of Employee Theft

	Mass Merchants	Department Stores	Specialty Softlines	Specialty Hardlines	All Participants
Point-of-Sale	44%	36%	43%	33%	39%
Sales Floor	17	33	23	15	20
Stock Area	12	9	14	19	14
Warehouse	10	9	7	12	10
Receiving	8	9	7	10	8
Hidden in Trash	6	4	4	6	6
Other	3	0	2	5	3

III. Loss-Prevention Expenses and Capital Expenditures

Loss-Prevention Expenses

The retailers polled decreased their spending, as a percentage of sales, to control shrink in 1988 compared to the previous year.

On average, the group spent .32% of sales in 1988, compared to .34% in 1987, a 6% decrease. However, when total expenditures were analyzed, the participating retailers spent about \$190 million on security and loss-prevention expenses in 1988, compared to approximately \$172 million the previous year.

The mass merchants were the only group to indicate no change in loss-prevention expenses, as a percent of sales, during that period. Their budgets remained constant at .28% of sales.

The department store retailers polled showed the most sizeable decrease in shrinkage-control spending: This group cut spending by about 9%, from .47% of sales in 1987 down to .43% in 1988.

The specialty store retailers polled from both the hardlines and softlines market segments, cut spending only slightly from 1987 to 1988.

The softlines specialists, for example, spent .41% of sales in 1987 and .39% in 1988.

(See Table 9)

Examining loss-prevention expenses by company size, the smaller companies, with 1988 sales under \$100 million, most sharply curtailed spending from 1987 to 1988. These retailers allocated .32% of sales in 1987, compared to .30% in 1988. Spending by the larger chains—those with sales exceeding \$100 million—remained constant, hovering between .33% and .36% of sales for both years. (See Table 10)

While the department store retailers polled made the deepest cuts in loss-prevention expenses, they still outspent the other three market segments, as a percent of sales.

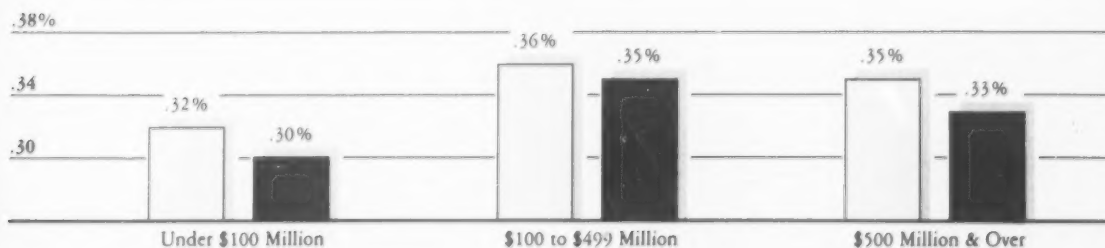
According to the survey, 74% of these retailers

Table 9 Security and Loss-Prevention Expenses

Loss-Prevention Expenses	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
% of 1988 Sales	.28%	.43%	.39%	.28%	.32%
% of 1987 Sales	.28	.47	.41	.29	.34
Total 1988 Expenses (\$ Thousands)	\$109,338	\$20,759	\$49,195	\$10,995	\$190,287

Table 10 Security and Loss-Prevention Expenses as Percentage of Annual Sales

□ 1987 ■ 1988



spent .25% of sales—or more—to fight shrink. In fact, 55% of them spent .5% and over. By comparison, 46% of the mass merchants spent .25% or more.

Allocation of Expenses

Well over half (62%) of the responding retailers' loss-prevention spending went to payroll expenses: 24% of all participant's expenses went to employee guards and detectives; 30% was allocated to other payroll expenses and 8% went to external guards and detectives.

Comparing the four market segments, de-

partment store retailers allocated the greatest portion of their loss-prevention expenses, 32%, to employee guards and detectives. The hardlines specialty retailers polled spent the least in this area—15% of their loss-prevention expenses. (See Table 11)

Capital Expenditures

As a group, the participating retailers spent an average of \$387,000 per company on capital expenditures for security and loss-prevention purchases in 1988.

Mass merchants led the four groups with

Table 11 Allocation of 1988 Loss-Prevention Expenses

	Mass Merchants	Department Stores	Specialty		All Participants
			Softlines	Hardlines	
Payroll for Loss-Prevention Employees*	30 %	25 %	29 %	35 %	30 %
Employee Guards/Detectives	29	32	16	15	24
Other Electronic Equipment**	12	13	6	14	11
Electronic Article Surveillance (EAS)**	8	11	18	3	10
External Guards/Detectives	8	6	13	3	8
Training	3	3	4	10	5
Outside Services	4	2	6	5	4
Physical Facilities	3	5	4	5	4
Incentive and Reward Programs	2	2	1	4	2
Other	1	1	3	6	2

*Other than guards/detectives

**Lease/rent/depreciation expense only.

Table 12 Capital Expenditures for Security and Loss Prevention

	Mass Merchants	Department Stores	Specialty		All Participants
			Softlines	Hardlines	
Alarms	41 %	21 %	16 %	44 %	34 %
Electronic Article Surveillance (EAS)	27	31	39	43	31
Other Electronic Equipment	22	42	35	11	26
Other	10	6	10	2	9
Average Expenditures per Company (\$ Thousands)	\$506	\$309	\$418	\$149	\$387

capital expenditures for the year of \$506,000; softlines specialists followed with \$418,000, and department stores with \$309,000.

Hardlines retailers spent the least—\$149,000.

Together, the retailers polled directed 34% of their capital expenditures to alarms, 31% to electronic surveillance equipment and 26% to other electronic equipment.

By market segment, the mass merchants spent 41% on alarms, 27% on EAS equipment and 22% on other electronic equipment. In comparison, department stores spent only 21% on alarms, 31% on EAS equipment and 42% on other electronic devices. (See Table 12)

EAS Equipment Used

Fifty-eight percent of the companies polled reported using electronic article surveillance (EAS) equipment. The most widely used brand

found in retail stores today was made by Sensormatic, according to this year's retail respondents.

Seventy-six percent of all the companies polled used this brand in their stores, followed by Knogo with 26%, Checkpoint with 23%; and 3M with 7%. Only 3% of the retailers polled reported using Monarch systems.

Looking at individual market segments, the department store group had the highest concentration of Sensormatic equipment, with 93% of these retailers featuring it in their stores.

The softlines specialty chains made most use of Knogo's EAS equipment—38% of those polled. The mass merchants were the most likely users of Checkpoint systems, while none of the department store retailers reported using this brand. (See Table 13)

Table 13 Type of Electronic Article Surveillance Equipment Used

	Mass	Department	Specialty		All
	Merchants	Stores	Softlines	Hardlines	Participants
Sensormatic	74%	93%	69%	67%	76%
Knogo	24	13	38	33	26
Checkpoint	35	—	25	11	23
3M	3	—	19	11	7
Monarch	3	7	—	—	3
Other	18	7	6	11	12

IV. Departmental Shrinkage Management

Highest-Shrinkage Departments

According to the survey participants, the three highest-shrinkage departments in 1988 were ladies' wear, fashion accessories/costume jewelry and men's wear.

For the mass merchants, the highest-shrinkage areas named were records, cassettes and videotapes, along with consumer electronics (radio, television and stereo) departments. And while 89% of the department store retailers rated ladies' wear as one of their most vulnerable shrinkage areas, only 24% of the mass merchants did so.

Naturally, the softlines retailers named ladies' wear as one of their highest shrinkage areas along with men's wear and fashion accessories/costume jewelry.

The hardlines participants named records, cassettes and videotapes as well as shoes as their most vulnerable departments. (See Table 14)

Security Device Usage

This year's survey examined the types of security devices used in both low- and high-shrinkage

departments in each of the four market segments. Interestingly, the participants, as a group, did not report significant differences in the devices they used to protect these areas.

The top four strategies the survey group used in both low- and high-shrink departments were training programs, point-of-sale systems, incentive programs, and employee package check programs.

In their highest-shrink areas, mass merchants added several other devices to fight shrink. These included: guards/detectives (69%); concealed TV monitors (67%), and mirrors (60%).

Not surprisingly, the department store retailers also took extra measures to protect their most vulnerable departments. For instance, in addition to the aforementioned strategies, 80% used lock and chain devices, 65% employed guards and detectives, 55% used both concealed TV monitors and mirrors, and 50% used observation booths.

In their most vulnerable departments, more

Table 14 Retailers Rank Top Three Departments Most Vulnerable* to Shrinkage

	Mass	Department	Specialty		All
	Merchants	Stores	Softlines	Hardlines	Participants
Ladies' Wear	24%	89%	64%	11%	41%
Fashion Accessories/Costume Jewelry	26	72	36	11	33
Men's Wear	12	56	52	11	28
Records/Cassettes/Videotapes	48	—	4	16	25
Radio/TV/Stereos	44	—	—	11	21
Health & Beauty Aids	32	6	8	—	17
Shoes	10	11	32	16	16
Juniors	6	61	12	—	15
Sporting Goods	26	—	—	5	13
Toys/Hobbies/Games	18	—	—	11	10
Fine Jewelry	10	—	16	—	8

*Retailers were asked to rank the three departments most vulnerable to shrink.

than half of the participating softlines retailers added electronic and magnetic tags to their arsenal of shrink-control devices.

To control losses in their highest-shrink areas,

approximately half of the hardlines specialists polled used guards and detectives in addition to training programs, point-of-sale systems and incentive programs. (See Tables 15 and 16)

Table 15 Security Devices Used: Lowest-Shrinkage Departments

	Mass Merchants	Department Stores	Specialty		All Participants
			Softlines	Hardlines	
Training Programs	72 %	72 %	52 %	53 %	65 %
Point-of-Sale Systems	53	61	52	53	55
Employee Package Control Programs	58	78	48	13	53
Incentive Programs	56	72	38	33	52
Guards/Detectives	49	44	43	13	41
Mirrors	35	39	52	40	40
Limited Access Areas	16	39	38	40	29
Electronic/Magnetic Tags	23	39	38	13	28
Lock and Chain	23	33	29	20	26
Observation Booths	30	28	24	7	25
Concealed TV Monitors	30	28	19	13	25
Fitting Room Attendants	26	22	24	7	22

Table 16 Security Devices Used: Highest-Shrinkage Departments

	Mass Merchants	Department Stores	Specialty		All Participants
			Softlines	Hardlines	
Training Programs	85 %	90 %	65 %	59 %	77 %
Point-of-Sale Systems	60	70	61	59	62
Incentive Programs	60	90	61	41	62
Employee Package Control Programs	63	90	65	27	62
Guards/Detectives	69	65	43	50	60
Concealed TV Monitors	67	55	43	36	55
Limited Access Areas	62	50	52	36	53
Lock and Chain	46	80	52	45	53
Electronic/Magnetic Tags	50	45	57	32	47
Mirrors	60	55	30	27	47
Observation Booths	37	50	22	14	32
Fitting Room Attendants	37	25	30	5	27

V. Inventory Analysis

Costing Methods

Since inventory management plays such a key role in shrinkage control, this year's survey examined the different inventory costing methods and practices the responding retailers used.

Eighty of the participants polled used the retail costing method for valuing inventories and 49 used the cost method.

Among firms using the retail method, 20 mass merchants, nine department stores and six hardlines specialists relied heavily on LIFO accounting. Softlines retailers (9) favored average cost methodologies.

For those retailers with cost-based inventories, 20 companies used LIFO, 20 used FIFO and 9 reported using cost-averaging.

By market segment, there was considerable variation: Mass merchants (13) with cost-based inventories relied most heavily on the FIFO method of valuation, while department stores and specialty retailers most often turned to

LIFO. Half of the specialty retailers and both of the department stores used LIFO valuations. (See Table 17)

Physical Inventory Approaches

A substantial portion of the companies polled said they took physical inventories with the help of an inventory-taking service. An equally sizeable group relied on store employees; only a very small percentage of those polled said they hired employees for inventory-taking purposes only.

By market segment, mass merchants were much more inclined to use an inventory-taking service than the other three market segments, with 39 of those polled using outside services. In contrast, 17 of the department store retailers, 14 of the hardlines specialists and 13 of the softlines retailers used store employees to take physical inventories. (See Table 18)

RGIS was the firm most often used by retail-

Table 17 Inventory Costing Methods (by Number of Companies)

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
Retail Method					
LIFO	20	9	5	6	40
FIFO	7	2	6	1	16
Average	8	5	9	2	24
Cost Method					
LIFO	9	2	3	6	20
FIFO	13	—	2	5	20
Average	6	—	1	2	9

Table 18 How Companies Take Physical Inventory (by Number of Companies)

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
Use Inventory-Taking Service	39	6	12	14	71
Store Employees	21	17	13	14	65
Hire for Inventory Taking Only	2	2	3	1	8
Other	1	—	2	1	4

ers turning to outside inventory-taking services. Approximately three-quarters of the retailers in each market segment using an outside service hired RGIS; although in some cases, RGIS was hired in conjunction with another firm. (See Table 19)

Inventory Frequency

According to the survey population, retailers usually performed physical inventory once or twice a year. In fact, 103 of the retailers

polled reported taking inventory annually or semi-annually.

The majority of mass merchants and department store retailers took inventory only once a year, 28 and 11, respectively.

The specialty retailers took inventory more often: 14 of the softlines and 11 of the hardlines chains conducted physical inventories twice a year. A small number of all the companies polled took inventory monthly, quarterly or on a cycle basis. (See Table 20)

Table 19 Inventory-Taking Services (by Number of Companies)

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
RGIS	30	5	12	12	59
Washington	19	1	1	6	27
Other	8	2	3	3	16

Table 20 Frequency of Physical Inventory (by Number of Companies)

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
Annually	28	11	10	8	57
Twice a Year	13	8	14	11	46
Monthly	1	—	1	2	4
Cycle Basis	5	—	1	3	9
Other	8	1	1	1	11

VI. Loss Prevention at the Warehouse/Distribution Center

Shrinkage Results

In 1988, shrinkage rose 27% at retail warehouse/distribution centers, according to the survey, from .22% of sales in 1987 to .28% of sales in 1988. For the participating retailers, that meant a \$104 million loss for 1988.

The four market segments, however, rely on very different distribution and warehousing methods, which may explain some of the variation in these shrinkage results.

Mass merchants and hardlines specialty chains, for example, warehouse a considerable amount of their inventory; particularly bulky, high-ticket items. Conversely, department store retailers and softlines specialty chains rely on distribution centers and vendor direct-ship deliveries for timely processing of their fashion apparel.

The participating mass merchants reported a slight drop in warehouse/distribution center-related shrink, from .30% of sales in 1987 to .28% in 1988. However, in actual dollars, this retail group lost more than \$80 million in 1988 from warehouse/distribution center shrinkage alone.

At the hardlines specialty retailers, ware-

house/distribution shrinkage ran as high as .48% of sales in 1988, up a dramatic 60% from the previous year's .30% of sales.

The participating department store retailers reported substantially higher warehouse/distribution center-related shrinkage results: .16% of sales in 1988 and .11% in 1987. (See Table 21)

Security and Loss-Prevention Expenses

Despite shrinkage increases in their warehouse/distribution centers, the retailers responding to this year's survey reported very little change in spending from 1987 to 1988.

As a group, spending held steady for both years at .07% of sales. In dollars, that translated to an overall outlay of about \$24 million for all of the participants.

Among the retail segments, there was little change in spending over the two-year period. For example, mass merchants decreased spending slightly—from .08% of sales in 1987 to .07% in 1988. During 1988, the responding mass merchandisers spent nearly \$19 million to curtail warehouse/distribution center shrinkage.

Loss-prevention expenses at the warehouse/distribution center also remained constant at

Table 21 1988 Shrinkage at the Warehouse/Distribution Center

	Mass Merchants	Department Stores	Specialty		All Participants
			Softlines	Hardlines	
% of 1988 Sales	.28%	.16%	.17%	.48%	.28%
% of 1987 Sales	.30	.11	.10	.30	.22
Total 1988 Expenses (\$ Thousands)	\$80,563	\$598	\$18,320	\$4,946	\$104,427

Table 22 Security and Loss-Prevention Expenses in the Warehouse/Distribution Center

	Mass Merchants	Department Stores	Specialty		All Participants
			Softlines	Hardlines	
% of 1988 Sales	.07%	.07%	.04%	.07%	.07%
% of 1987 Sales	.08	.07	.04	.06	.07
Total 1988 Expenses (\$ Thousands)	\$18,781	\$1,191	\$3,648	\$618	\$24,238

the responding department store chains, equalling .07% of sales, or slightly over \$1 million in 1988. The hardlines and softlines specialists polled also reported only minor fluctuations in spending. (See Table 22)

Security Devices Used

According to the retailers polled, central station alarms were the most common security devices used at their warehouse/distribution centers. Approximately 84% of the survey group used this device.

Limited-access areas were the second most commonly used security devices, with 75% of the retailers reporting their use. Trailer locks/seals followed with 72%, then guards/detectives with 63%.

Among the retail segments, 63% of the department store retailers cited the use of fifth wheels or pinlocks on trailers, a much higher percentage than the other three groups. In addition, the department store group indicated a

greater use of both concealed television monitors and observation booths in distribution-related areas than the other market segments. (See Table 23)

Merchandise Distribution Methods

Most of the retailers polled used a combination of transportation methods to distribute goods throughout their chains. While 69% reported using their own trucks, another 61% also relied on outside carriers.

Analyzing the market segments: Participating mass merchants were split evenly between the two methods. However, the department store retailers were much more likely to use their own trucks.

Nearly twice as many of the hardlines specialty companies (80%) used their own trucks as opposed to outside carriers (45%). Conversely, 82% of the softlines companies hired outside carriers, while 59% used their own trucks. (See Table 24)

Table 23 Security Devices Used at the Warehouse / Distribution Center

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
Central Station Alarm	86%	79%	89%	80%	84%
Limited Access Areas	71	89	74	67	75
Trailer Lock/Seal	76	79	63	60	72
Guards/Detectives	71	47	58	67	63
Local Alarm System	52	32	42	40	44
Visible TV Monitors	45	47	37	40	43
Fifth Wheels/Pinlocks on Trailers	38	63	42	33	43
Ventilation Screens on Dock Doors	33	21	37	33	32
Concealed TV Monitors	24	42	26	13	26
Observation Booths	10	37	5	13	15

Table 24 Method of Merchandise Distribution

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
Own Trucks	66%	75%	59%	80%	69%
Outside Carrier	64	45	82	45	61
Other	4	—	5	5	4

VII. Apprehensions

Number of Apprehensions

Retailers participating in this year's survey made more than 570,000 apprehensions in 1988. Of that total, the overwhelming majority—nearly 93%, or approximately 529,000—were customers, compared to some 41,400 who were employees. This trend was consistent among the four market segments.

Participating mass merchants reported the highest average number of apprehensions in 1988: 11,925 were customers, and 650 were employees. The department store retailers

reported far fewer apprehensions than the mass merchants. This group averaged 1,562 customer and 272 employee apprehensions. The softlines specialty retailers polled reported an average total of 2,599 apprehensions. Of those caught, an average of 2,209 were customers and 390 were employees.

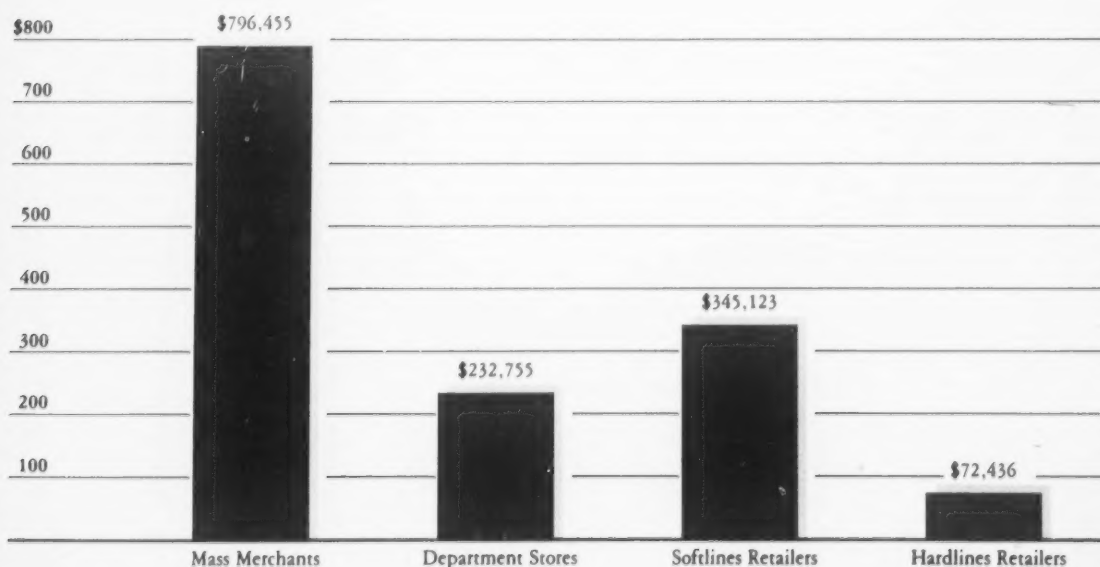
The responding hardlines specialty chains reported the lowest number of apprehensions, averaging 247, of which 156 were customers and 91 were employees. (See Table 25)

Table 25 Average Number of Apprehensions: Customers and Employees

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
Customers	11,925	1,562	2,209	156	15,852
Employees	650	272	390	91	1,403

Table 26 1988 Average Dollar Amount of Recovered Merchandise

(In Thousands)



Dollar Value of Recovered Goods

As a group, the retail participants recovered on average more than \$1.4 million in lost merchandise in 1988.

The responding mass merchants recovered more than 55% of that amount, or \$796,455 worth of goods. The softlines specialists recaptured 24%, or about \$345,123; department stores recovered about 16%, or \$232,755. The hardlines retailers recovered \$72,436, about 5% of the group's total. (See Table 26)

Drug-Related Thefts

This year's survey marked our first examination of a particularly sensitive issue: the relationship of drug usage to retail shrinkage. While it was difficult for retailers to determine drug involvement, our findings indicated that many of those polled suspected that the people who stole from their stores were more likely to be involved with drugs than not.

When asked if, in their opinion, there was any evidence that the customer thefts in their stores were drug-related, 41% of the retail par-

ticipants answered that there was evidence of drugs. In contrast, only 13% reported that there was no evidence of drug involvement. Note, however, that 46% said they did not know.

When questioned about employee apprehensions, 40% of the retailers polled said that, in their opinion, these thefts were drug-related; 36% said they did not know, and the other 24% said there was no drug involvement.

By market segment, more than half of the participating department store retailers (56%) indicated that the customers apprehended in their stores showed evidence of drug involvement. This percentage was considerably higher than in the other three market segments.

In terms of employee apprehensions, 42% of the mass merchants reported evidence that thefts were drug-related, compared to 41% of the department store retailers, 35% of the softlines specialists and 38% of the hardlines specialty retailers. However, of the mass merchants polled; 25% said there was no evidence of drug involvement and 33% said they did not know. (See Table 27)

Table 27 Retailers' Opinions Whether Thefts Were Drug-Related

	Mass Merchants	Department Stores	Specialty Softlines	Hardlines	All Participants
Customers:					
Evidence that Thefts Were Drug-Related	44%	56%	38%	28%	41%
No Evidence that Thefts Were Drug-Related	13	11	15	12	13
Don't Know	43	33	47	60	46
Employees:					
Evidence that Thefts Were Drug-Related	42	41	35	38	40
No Evidence that Thefts Were Drug-Related	25	18	23	29	24
Don't Know	33	41	42	33	36

VIII. Drug-Testing Policies

Drug testing is a particularly delicate issue in the workplace today. The responses to this year's survey indicated there will be considerable change in the next several years as retailers develop increasingly effective ways to deal with this problem. Following are some of the policies that participating retailers have already implemented.

Drug Testing by Employee Group

The study revealed that 21% of the respondents were using drug testing. According to that group of retailers, the most common employee group to undergo drug testing worked in the distribution center. Nearly half (48%) of this group reported testing distribution center for drugs.

Thirty-three percent said they used drug testing for store-level employees, while 19% tested headquarters personnel, and 19% cited security and loss-prevention staff. A number of participants also mentioned truck drivers. (See Table 28)

When Retailers Conduct Drug Testing

Of the retailers polled who performed drug tests, more than half (54%) reported that the testing occurred during the pre-employment screening process.

Another 38% of this group said they tested for drug use only when suspicion existed; 19% reported periodic testing. Some of the retailers polled mentioned other drug-testing procedures — such as testing during the annual physical

Table 28 Retailers Using Drug Testing by Employee Group

Distribution Center	48%
Store Level	33
Headquarters	19
Security & Loss-Prevention Area	19
Other	37

Table 29 When Retailers Conduct Drug Testing

Pre-Employment Screening	54%
Only When Suspicion Exists	38
Periodic Testing	19
Other	31

and involvement in the Department of Transportation's program. (See Table 29)

Interestingly, according to the retailers polled who have conducted drug tests, none had been involved in litigation due to this practice.

Retailers Who Do Not Conduct Drug Tests

Approximately 79% of the retailers polled did not perform drug testing on their employees. Nearly half of these retailers cited management philosophy as their chief reason for not conducting drug tests.

However, only 17% of these retailers reported that drugs were not a problem at their companies. Similarly, only 11% said that the tests were not cost-effective, and none of these retailers stated that the tests did not work.

An additional 35% of the retailers who did not conduct drug tests indicated using pre-employment honesty testing. (See Table 30)

Table 30 Why Retailers Do Not Test for Drugs

Management Philosophy	47%
Use Pre-Employment Honesty Testing	35
Drugs Are Not a Problem at Our Company	17
Current and/or Pending Legislation	17
Tests Are Not Cost-Effective	11
Tests Do Not Work	—
Other	17

IX. Market Segment Analyses and Retail Case Studies

Mass Merchant Strategies

The Participants

This year, 56 mass merchants participated in the study. Together, they operated more than 30,000 store locations with total sales for fiscal 1988 of over \$116 billion.

Of the total mass merchandising group, 29% fell into the low-shrinkage category (shrink estimated at 1% or less of sales); 25% fell into the high-shrinkage range (shrink estimated at 2.5% of sales or more).

According to the mass merchants polled, 44% of the low-shrink companies reported 1988 sales of \$500 million and over. In comparison, 38% of the high-shrinkage firms reported sales in excess of that amount.

Loss-Prevention Expenses

All of the participating mass merchants—from both low- and high-shrinkage companies—spent less than .5% of sales on average to control shrinkage in 1988.

Interestingly, the higher-shrink companies allocated a greater portion of their sales to combat the problem. Whereas 42% of the high-shrinkage companies spent .25% to .49% of sales or more on loss-prevention, only 33% of the low-shrinkage mass merchants did so. (See Table 31)

Shrinkage Control Policies

To help control losses, the high-shrinkage mass merchants spent approximately 42% of their loss-prevention monies on payroll. In com-

Table 31 Mass Merchant Loss-Prevention Expenses as a Percentage of Sales

	Low-Shrink Retailers	High-Shrink Retailers
< .1%	13%	8%
.1% - .24%	54	50
.25% - .49%	33	42
> .5%	—	—

Table 32 Mass Merchant Loss-Prevention Expense Allocation

	Low-Shrink Retailers	High-Shrink Retailers
Electronic Article Surveillance	3%	8%
Other Electronic Equipment	19	4
Physical Facilities	3	3
Employee Guards/Detectives	30	23
External Guards/Detectives	9	11
Payroll for Loss-Prevention Employees	26	42
Outside Services	5	3
Incentive/Reward Programs	2	2
Training	3	3
Other	—	1

parison, the low-shrinkage mass merchandisers spent 26% for these salaries. Similarly, the high-shrink companies allocated only 23% of their spending for employee guards/detectives versus only 30% for the low-shrinkage chains.

Also, the high-shrink companies allocated 8% of their loss-prevention expenditures to electronic article surveillance equipment, compared to only 3% of the low-shrinkage mass merchants. However, the low-shrinkage companies devoted 19% to other electronic equipment, such as cameras and alarms.

In regard to training and incentive programs, low- and high-shrink mass merchants allocated the same percentages of their loss-prevention funds—3% and 2%, respectively. (See Table 32)

Department Store Strategies

The Participants

Twenty department store retailers participated in this year's survey. Together, they operated 937 stores with sales for fiscal 1988 of nearly \$10 billion.

Of the total department store respondents, 20% fell into the low-shrinkage range (losses estimated at 1.5% of sales or less), and 35% fell into the high-shrinkage category (losses of 2.5% of sales or more). Average losses for all the retailers in this market segment were 2.22% of sales.

In general, the low-shrink department stores tended to report lower sales volumes than did high-shrink companies. All of the low-shrink retailers responding to this year's survey reported annual sales of \$100 million or less in 1988, compared to 57% of the high-shrink companies.

Loss-Prevention Expenses

According to the survey, the great majority, 80%, of high-shrinkage department store retailers spent .5% of sales or more on loss prevention. None of the low-shrinkage chains allocated that amount.

Among low-shrink department stores, 66% of the chains spent .24% or less to fight shrink, compared to only 20% of the high-shrinkage companies. (See Table 33)

Shrinkage Control Policies

The low-shrinkage department stores allocated a substantially greater percentage of their loss-prevention funds to payroll for loss-prevention

Table 34 Department Store Loss-Prevention Expense Allocation

	Low-Shrink Retailers	High-Shrink Retailers
Electronic Article Surveillance	44%	5%
Other Electronic Equipment	7	4
Physical Facilities	—	8
Employee Guards/Detectives	—	38
External Guards/Detectives	7	10
Payroll for Loss-Prevention Employees	38	26
Outside Services	2	2
Incentive/Reward Programs	1	2
Training	1	2
Other	—	3

employees than the high-shrink firms—38% of expenses compared to 26%.

However, the high-shrink retailers spent a sizeable portion of their loss-prevention budgets on employee guards/detectives, while their low-shrinkage counterparts reported that they did not invest in employee guards/detectives. The high-shrink firms also spent more on external guards and detectives, 10%, versus 7% for the low-shrink chains.

The low-shrink department store retailers allocated 44% of their loss-prevention funds to EAS equipment, compared to only 5% for the high-shrink companies.

Both high- and low-shrinkage department store retailers reported similar spending patterns in regard to training and incentive programs, averaging about 2% of their loss-prevention expenses. (See Table 34)

Table 33 Department Store Loss-Prevention Expenses as a Percentage of Sales

	Low-Shrink Retailers	High-Shrink Retailers
< .1%	33%	—
.1% - .24%	33	20%
.25% - .49%	34	—
> .5%	—	80

Softlines Specialty Store Strategies

The Participants

Twenty-seven softlines specialty store retailers responded to this year's survey. They represented 4,961 locations and, as a group, they reported 1988 sales of \$11.1 billion.

Of the total softlines specialty store participants, 22% fell into the low-shrinkage category compared to 30%, with high-shrink results. Low-shrinkage was defined as losses of approximately 1% of sales or less; high-shrinkage as losses reaching 2.0% of sales or more.

Generally, the low-shrink softlines chains were smaller in size—both in terms of sales volume and number of stores—than their high-shrinkage counterparts.

Loss-Prevention Expenses

According to the study, 29% of the high-shrink softlines specialty retailers spent .5% or more of sales in efforts to control shrinkage, compared to 17% of the low-shrinkage retailers.

Conversely, 43% of the high-shrink participants in this market segment allocated less than .1% of sales, as opposed to 33% of the low-shrink softlines specialty retailers. In the low-shrink category, 50% of the companies polled spent between .1% to .49% of sales for loss-prevention expenses. (See Table 35)

Shrinkage Control Policies

In efforts to curb shrinkage, the high-shrinkage softlines participants allocated 23% of their funds to employee guards and detectives, in

Table 35 Softlines Specialty Retailer Loss-Prevention Expenses as a Percentage of Sales

	Low-Shrink Retailers	High-Shrink Retailers
< .1%	33%	43%
.1% - .24%	17	14
.25% - .49%	33	14
> .5%	17	29

Table 36 Softlines Specialty Retailer Loss-Prevention Expense Allocation

	Low-Shrink Retailers	High-Shrink Retailers
Electronic Article Surveillance	22%	15%
Other Electronic Equipment	14	1
Physical Facilities	10	4
Employee Guards/Detectives	2	23
External Guards/Detectives	11	11
Payroll for Loss-Prevention Employees	35	31
Outside Services	4	1
Incentive/Reward Programs	2	—
Training	—	11
Other	—	3

contrast to only 2% for the low-shrink companies.

However, both low- and high-shrinkage companies spent 11% of their loss-prevention dollars on external guards and detectives. The two groups also spent comparable amounts on their loss-prevention employee payrolls; 35% for low-shrink and 31% for high-shrinkage softlines chains.

The low-shrinkage firms outspent the high-shrink companies on EAS equipment, which accounted for 22% of loss-prevention funds for the low-shrink companies, compared to 15% for the high-shrink chains.

However, the high-shrink softlines companies reported spending 11% of their loss-prevention funds on training programs, while none of the low-shrink companies did so. (See Table 36)

Hardlines Specialty Store Strategies

The Participants

The 27 hardlines specialty retailers who participated in the study operated some 6,624 stores with 1988 sales of \$8.8 billion.

Of the total hardlines specialty retailers polled, 33% fell into the low-shrinkage category (losses estimated at 1% of sales or less). Another 26% fell into the high-shrinkage range (losses of 2.0% of sales or more).

Not surprisingly, high-shrinkage hardlines chains tended to ring up higher sales and to operate in more locations.

One third of the low-shrinkage companies and 43% of the high-shrink firms reported 1988 sales of \$100 million or more.

Similarly, 33% of the low-shrink hardlines specialty chains operated 50 or more stores, compared to 42% of the high-shrink companies.

Loss-Prevention Expenses

Loss-prevention spending patterns also varied significantly among the hardlines specialty retailers.

For example, the study revealed that 75% of the low-shrinkage hardlines retailers spent between .1% and .49% of sales on loss-prevention, while 50% of the high-shrink companies spent at least .25% of sales. (See Table 37)

Table 37 Hardlines Specialty Retailer Loss-Prevention Expenses as a Percentage of Sales

	Low-Shrink Retailers	High-Shrink Retailers
< .1%	25%	33%
.1% - .24%	50	17
.25% - .49%	25	17
> .5%	—	33

Table 38 Hardlines Specialty Retailer Loss-Prevention Expense Allocation

	Low-Shrink Retailers	High-Shrink Retailers
Electronic Article Surveillance	—	8%
Other Electronic Equipment	20%	9
Physical Facilities	2	3
Employee Guards/Detectives	10	16
External Guards/Detectives	4	4
Payroll for Loss-Prevention Employees	28	28
Outside Services	2	8
Incentive/Reward Programs	3	9
Training	16	14
Other	15	1

Shrinkage Control Policies

The high- and low-shrink hardlines specialists who participated in the study allocated comparable portions of their loss-prevention expenses to payroll for loss-prevention employees: 28%.

However, in regard to employee guards/detectives, the low-shrink retailers underspent their high-shrink counterparts: allocating 10% of loss-prevention expenses, as compared to 16%.

In terms of incentive programs, the high-shrink retailers spent more than the low-shrink companies by a three-to-one margin. (See Table 38)

McCrory's Loss-Prevention Strategy: Scrutinize Every Policy, Procedure



Joe McDevitt,
Director of Loss Prevention/
Store Operations

McCrory's is a survivor; a veteran of decades of retail price wars and takeover battles.

Today, McCrory's is 1,500 variety stores strong with annual sales in excess of \$1.5 billion. Its stores, which average 12,000 sq. ft., 15 employees and two

or three cash registers, can be found in 41 states operating under the J.J. Newbury, H.L. Green, S.H. Kress, and T.G.& Y. nameplates. Its densest concentration of outlets is in California and the Northeastern states.

Despite its longevity, there are problems. And shrinkage is one of them.

In 1987, the year Joe McDevitt, Director of Loss Prevention/Store Operations, joined the company, shrinkage was eroding more than 5% of annual sales. McDevitt himself is a retail veteran who started his career as a store detective in one of Zayre's Chicago stores.

"McCrory's didn't have one big problem," McDevitt recalled. "But we knew if we could find a dozen places where we could save .1% or .2%, the impact on the bottom line would be tremendous."

Management pulled out all the stops and made shrinkage control its No. 1 priority. By 1988, losses had been slashed to nearly 1%.

Even with such dramatically improved results, senior management continues to make loss prevention a priority. As McDevitt noted, "[for McCrory's] loss-prevention programs to continue to succeed, everyone must get involved."

"We started at the very top of the organization," McDevitt said describing the company's initial efforts. We said shrink was a problem and we had to get it under control." So from February 1, 1988 to January 31 of this year, "we said shrink was a major issue—and we didn't let up."

The company began by establishing an executive shrink committee which included the president, and the heads of operations, distribution, finance, and personnel as well as the directors of internal and field audit.

The committee met once a month, McDevitt said, scrutinized every policy and procedure, and created detailed action plans.

In the field, "each member of our field loss-prevention team (28 people) was responsible for monitoring eight high-shrink stores." In addition, the company's seven regional shrink managers were each responsible for 15 stores. In all, 289 of the company's then 1300 stores were targeted for a thorough review.

"We spent two days looking at the overall problems," McDevitt said, "then we went back in for another five days and looked at everything that could affect shrink."

Among the areas studied: policies, procedures, store morale, paper flow, shoplifting and internal theft. "We looked at how we handle adjustments, markdown codes, credits and debits in the warehouse. We looked under every pebble."

To support its findings, management developed a shrink-incentive program aimed at store-level employees. "We said, 'if they could reduce shrink to 2.5%, all hourly, non-bonus employees would be eligible for up to seven days pay.'"

Management was willing to invest money. "If we were going to succeed, every store associate had to get involved," the executive noted.

To bring that message home, McDevitt would often pile a stack of one dollar bills equal to seven days wages in front of startled sales associates. "We told them, that money could be theirs." That dramatic presentation also emphasized that "shrink hurt everyone."

The program didn't stop there. To further raise employee awareness, management developed a video program for store associates. Among other things, "the video told our peo-

ple how to use the 800-number 'tipline' we created." And again, to reinforce the company-wide effort, "we rewarded every tip that led to an internal investigation."

In its second year of operation, calls to the company's tipline went up 400%; they are up yet again this year.

McDevitt said the chain did everything it could to keep reminding employees about shrink: "Think Loss Prevention" stickers were put in strategic places (like on the door of a store's safe); posters were hung, and a shrinkage newsletter was distributed. Management even put shrink-awareness messages on employee paystubs.

The underlying strategy was to try to make sure the facts meant something. For example, "in one variety store, which lost \$140,000 last year, we put up a poster to show employees the store was losing \$383 a day—\$31 for every hour it was open."

Management then challenged employees to do something about it. "We want them to know that they can make a difference. We didn't think the solution was to throw more security people at the problem."

But even as he acknowledged that employee awareness is the key to success, McDevitt noted that employee turnover, a chronic problem for retailers, can quickly negate any chain's efforts. "We depend on our district managers and store managers to do the training. Discipline is the key. But to make any program work, you need a core group of store employees who, in turn, can set the example for part-timers."

In 100 of its stores, the company is now experimenting with pre-employment screening. "We don't know if paper and pencil tests work, or if they are even worthwhile, but we are exploring all of our options to control turnover and to hire the best employees."

One thing of which McDevitt is fairly certain: "Retailers are going to have to become much more flexible." He thinks McDonald's custom-tailored work schedules and the college tuition programs offered by McCrory's and other retailers are steps in the right direction. Last year, for example, McCrory's offered 27 scholarships through its Rapid American parent.

"Shrink is no longer just an operations problem. It's everybody's problem."

Highway 1.7—The Road to Success



Jack Prouty
Senior VP/CFO

For Younkers, the 133-year-old, Iowa-based department store chain, the 1980s have been a decade of change.

The pace began to accelerate in 1985 when Tom Gould joined the company as President and began assembling a new executive management team. Two years later, with a new 10-person management group in place, Younkers made an aggressive acquisition: J.L. Brandeis, a \$100-million, 11-store retailer headquartered in Omaha. With that takeover, Younkers became a \$300-million company.

The takeover cemented Younkers' commitment to both an aggressive sales plan and a fairly aggressive store remodeling program. At the same time, the retailer also moved to consolidate its distribution operation in Des Moines.

Every level of the organization felt the impact of the changes. Still, despite all of the upheaval, 1988 shrink hovered just above 2% of sales—the industry average. But these were not results of which management felt they could be proud.

So they charted a course of action. Highway 1.7.

To learn more about Younkers' new loss-prevention program, Ernst & Young recently met with four executives involved with implementing the program: Jack Prouty, Chief Financial Officer; Don Cato, Senior VP, Operations; Clarke McCord, Director, Internal Audit & Systems Procedures; and Juan Valle, Director, Loss Prevention.

"Our organization had been evolving," noted Jack Prouty, "and we knew we needed to address loss prevention."

Don Cato said management also knew "that success depended on how much upper man-

agement valued loss prevention."

The loss-prevention program was launched in a joint meeting of the executive committee and the operating board (divisional level managers). "We brainstormed the issues and opportunities surrounding asset production and built a program around our weaknesses," Cato continued. "Our goal was to reduce shrink from 2.1% to 1.7%."

The loss-prevention and corporate audit directors were charged with creating a program: "1.7—The Road to Success."

To introduce the program to store and distribution personnel, Prouty and Cato produced a video: "We had 43 facilities, including 36 stores, and we wanted to let everyone know where the emphasis would be in 1989," Prouty said.

As at other retail companies, the key to



Don Cato
Senior VP/Operations

Younkers' program was to pay close attention to the small details.

"Twelve of our departments produce 8% of our sales volume," Clarke McCord, Director of Internal Audit, said. In 1988, those same departments accounted for 25% of the company's shrink. "We knew if we could control those areas we could hit 1.7%," he explained.

Among the high-shrink areas targeted were men's accessories; designer men's wear; several jewelry areas, including the tailored and costume departments; and junior denim.

"Once we identified the 12 departments, we created a program to address each area," McCord said. "Now, when we talk about sales opportunities, we also talk about shrinkage control."

"Management support, discipline and control are the key to this kind of program," Juan Valle added. "We had a great opportunity to introduce control and discipline at the detail level."

Younkers' top management also gave more responsibility to supervisory personnel up and down the line. They also created a detailed store audit program to measure the effectiveness of:

- Sales floor disciplines
- Fitting room disciplines
- Cash office and paperwork flows
- Safety
- Merchandise handling disciplines
- Dock activities
- Cash handling disciplines
- Facility security issues

Each store's progress is measured on an ongoing basis against the company's media compliance standards.

"Where we had a 9% discrepancy against the media standard at the beginning of the year, we are now measuring under 2%," McCord said.



Clarke McCord
Director Internal Audit

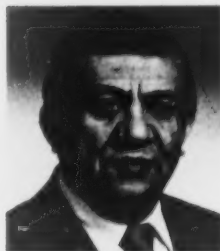
"We let people know that media compliance was important," CFO Prouty continued. "We let them know we were looking over their shoulders."

The push for "media compliance" also had a beneficial impact on employee theft. "Last year," Prouty said, "employee theft was one of our biggest concerns." So far this year, he said, internal apprehensions are down 20%; external apprehensions are up 50%, and overall dollar recoveries are up 40% over last year.

Prouty assessed those results: "We think Highway 1.7 has made those people who are prone to stealing more concerned. And other

associates are not lax about reporting something they see."

Other frontline controls, monitored in a monthly progress report presented to the joint executive committee/operating board, are also making a difference:



Juan Valle
Director Loss Prevention

- Returns-to-vendors (RTVs) were studied. "It was important to track the time it took for stores to respond to central organization requests to move goods to our central RTV location," McCord said. "Large discrepancies

were noted regarding timely returns." Average time-frames for store response to RTVs are now down 20% over a year ago.

- The buyers' purchase journals were "salted" with errors. "We wanted to force the merchandise staff to look more closely at their records. At the beginning of the year, as many as 50% of the 'salts' went undiscovered," McCord said. Today, "if we have one, it's unusual."

- The company's transfer policy and transfer document quality were also re-evaluated. The result: The number of merchandise transfers between stores was reduced, and document error has been cut by 50% since the beginning of the year, McCord said.

"Our program isn't fancy," Prouty said, "we are executing the basics. We looked at all the components that contribute to shrink—and addressed each one."

Moreover, he added, "this is a forever program. This program can't be a one-year crusade. This is a matter of doing small things well. And we must remain vigilant and committed."

Company Traditions Set Loehmann's Apart And Help Control Shrink



Michael Corinotis
Director of Loss Prevention

By most estimates, the off-price apparel industry got its start in the Bronx, N.Y. decades ago when Frieda Loehmann opened her first ladies' apparel store and began discounting name brand clothing to women in the neighborhood.

Today, the off-price industry pumps out about \$7 billion in annual sales and Loehmann's has grown to a 71-store chain with locations across the United States. The \$400-million operation is run from the chain's Bronx, N.Y. headquarters and 150,000 sq. ft. distribution center. The original Bronx store is gone, however, replaced by a new, more suburban Bronx/Riverdale flagship.

Like other apparel retailers targeting an up-market customer base, the store's better-priced inventory is vulnerable to internal and external shrinkage. But unlike many of its competitors, Loehmann's long history has helped forge built-in controls which can make a big difference at the bottom line.

Philip Kaplan was named Loehmann's Chairman two-and-a-half years ago, following the retailer's acquisition by May Department Stores. (Subsequently, the company was purchased by private investors.) Kaplan, in turn, hired Michael Corinotis, formerly with Conran's, to be Director of Loss Prevention. Their view: "If management wants to control shrink, they have to set the direction and the tone." They do.

"We do things differently at Loehmann's." Phil Kaplan was direct and to the point.

"A lot of specialty retailers, especially those in large metro markets, settle for average shrinkage ratios of 2.5% of sales," Kaplan noted. "We do not."

At Loehmann's, "we've always taken a

monthly inventory at all of our stores." More importantly, Kaplan said, top management gets immediate feedback: "If the stores take inventory on Monday night, we have the results by noon on Tuesday. Other retailers may not know what's going on for six months since they take physical inventory two times a year."

The monthly inventory is only one of a series of company traditions that pay off at the bottom line. Loehmann's trademark no-frill stores with their communal "bullpen" dressing rooms discourage shoplifters. And its long-standing "no-refund" policy foils certain cashier/customer collusion schemes.

"You couldn't recreate Loehmann's today," Kaplan said. Other company traditions, like encouraging customers to check their coats when they enter the 10,000 to 15,000 sq. ft. stores, build in additional shrinkage controls.

Cashier under-rings are not a significant problem either thanks to other operating procedures. Cashiers must chop price tickets and deposit them into a locked box at the checkout. The stubs are then reconciled to the register tape on a daily basis.

"Shrinkage control is a function of mental attitude and discipline," Kaplan noted. To underscore the company's commitment to shrinkage control, Loehmann's rewards employees with a share of the profits.

"Ten percent of each store's profits are distributed to its employees," Kaplan explained. "At every level, our employees know that shrink can hurt them personally." Shoppers benefit too. "We also pass our savings along to our customers," Kaplan said.

Last fiscal year, Loehmann's kept shrinkage to just under 1% of sales. Roughly 20% of the losses occurred in the warehouse; the rest took place in the stores. While those would be good results for most retail companies, Kaplan indicated that this performance is not acceptable to Loehmann's management.

This year, with same store sales up 16%,

shrinkage as a percentage of sales is down.

Even so, problems inevitably occur. Direct "handouts"—where cashiers give away the merchandise they are supposed to be ringing up—slip through the controls.

A red flag goes up when a store's shrink hits an unacceptable level—making that store a candidate for the "problem store" program.

"We jump on those stores where the shrink is not acceptable," Loss-Prevention Director Mike Corinotis said. The company regularly targets the 12 to 15 stores with the poorest shrinkage performance for the program. Shrink does not exceed 2% of sales at any of the Loehmann's stores.

The problem store program operates at several levels. At the top is a senior management committee that monitors shrink performance. A store shrinkage control committee is also created in the problem store; over time, every employee in the store will serve on this committee. The store also holds monthly shrinkage reduction meetings which an executive committee member attends.

The field organization also plays an active role. Regional supervisors are sent in to check store receivables and transfers, scrutinize markdowns, and review all of the store's paperwork. They also attend monthly shrinkage-control meetings.

If a store has a poor inventory result, Corinotis said, a second inventory is taken a week or two later. If the shrinkage problems persist, management looks further—and deeper inside the store-level organization. They may study recent hires or do a background check on the store's cleaning service, for example.

Loehmann's other policies and procedures parallel those widely-used by retailers:

- Electronic article surveillance equipment is used in high-volume stores.

- Price tags are "double-looped" to deter customers from switching price tickets. Now, Corinotis said, the only way to remove a ticket is to tear it off.

- Next year, Loehmann's will begin adding barcodes to merchandise tickets. Cashiers will double swipe price tags to make sure markdowns and sku numbers correspond, Corinotis said.

- At the back door, store receiving disciplines are also in force. One hundred percent of all merchandise units must be counted, and 10% of the stores also check retail dollars. To maintain receiving dock vigilance, stores are periodically "salted" with miscounts.

"Last year, we sent out \$500 million worth of goods and found only \$100,000 worth of errors," Corinotis added.

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